

# REAL – Prepared Remarks – Q4'24

## REAL CEO Remarks – Q4'24

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Thank you, Caitlin. Good afternoon, everyone, and welcome to The RealReal's fourth quarter and full year 2024 earnings conference call. Today, I am pleased to report strong Q4 and full year results. We accelerated growth through the year, culminating in 14% Revenue growth in Q4. We reached important financial milestones in 2024. We delivered positive Adjusted EBITDA and positive Free Cash Flow for the full year.

The RealReal is at the intersection of luxury and value; this position has never been stronger or more relevant. Customers come back to The RealReal again and again to find one-of-a-kind pieces and to monetize their closets, confident that we are the experts in luxury resale. We've built relationships with our buyers and consignors founded on trust.

We exited 2024 from a position of strength. Healthy supply trends, strong buyer engagement, and operational excellence enabled us to achieve GMV and Adjusted EBITDA above our guidance range for Q4. We also delivered positive results on several customer KPIs including conversion, retention and engagement.

Ajay will provide more detail on our financial results for the fourth quarter and full year later in the call. I would like to highlight a few notable achievements, as 2024 marked an important inflection point for The RealReal:

- We delivered our first full year of profitable Adjusted EBITDA as a business.
- Free Cash Flow improved \$104 million dollars versus last year resulting in our first full year of positive Free Cash Flow.
- 2024 also marked a return to profitable growth. GMV was \$1.8 billion dollars, up 6% year-over-year. Consignment revenue was up 14% for the year with particular success in unlocking mid- and high- value supply.
- And active buyers on a trailing 12 month basis were up 5% year over year.

These achievements are the result of foundational changes we've implemented. We've sharpened our focus on our core business and returned to growth with improved unit economics. Today, I'll talk through the ways we're making progress on our three strategic pillars - unlocking supply through our growth playbook, driving operational efficiencies, and obsessing over service.

Let's start with the growth playbook...

The first component of our growth playbook is our sales team, which is a strategic differentiator. As a reminder, our sales team is made up of our luxury managers who work directly with our consignors to build trust and maximize supply. Over the course of 2024, we've spent time optimizing our incentive structure and elevating our sales team's experience.

We better aligned the team's compensation with our overall company goal of driving profitable supply, focusing the team on value, rather than units. Better compensation alignment and elevating the employee experience, have resulted in more supply value per luxury manager, lower attrition, and higher sales team retention compared to last year. Today, more than half of our sales team has now been with The RealReal for over 2 years. We expect these changes to drive results through deeper relationships with sellers, higher approval ratings, and a better seller experience. Notably, the value generated per sales rep in 2024 was up roughly 15% compared to the prior year.

In 2025, we will further improve our sales team's best-in-class service while using technology to drive efficiency. We are excited to expand our Smart Sales AI initiative. This initiative leverages customer data and external data to help luxury managers assess which clients are most likely to consign at any time. Tools like Smart Sales allow our luxury managers to service more consigners and improve efficiency. Early results of this initiative have been very encouraging and we are planning a broader rollout in 2025.

The second piece of our growth playbook is marketing. Our marketing and brand teams unlock supply by driving brand heat and relevance that translates into customer acquisition and retention.

We've refined our marketing channel investments to better target, engage with, and acquire more high-value consignors. Our marketing technology team has adopted new tools that increase our precision in targeting. We have an attractive consignor demographic - it's a diverse group that skews younger, affluent, and fashion-focused. About half of our consignors are Millennials or Gen Z, and they're loyal - selling with us multiple times per year. We're seeing strong early results in our evolved approach to acquisition, and we'll continue to optimize our targeting throughout the year.

In 2024, our brand marketing highlighted trust and authenticity. We continue to be active on social channels, generating buzz for our brand. For example, during the past holiday season, our "Journey of a Bag" video, an engaging take on our authentication and fashion expertise, drove increased followers, more traffic, and elevated new member sign-ups.

The third and final piece of our growth playbook is stores.

As a part of our neighborhood store strategy, we position stores in affluent residential areas to create a frictionless experience for our consignors. Stores generate supply and drive awareness. In 2024, nearly 25% of new consignors were acquired through our retail locations. In Q4, we added two new stores to our fleet in Miami and Houston. We're off to a great start in both markets and are excited to be a part of these communities.

We are seeing the benefits from our growth playbook in strong supply metrics and momentum in the top-line.

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Moving to our next strategic pillar – operational efficiency...

As a reminder, our rich data and tech capabilities enable us to benefit from recent advancements in AI. We've used these capabilities to drive efficiency and accelerate our path to profitability. Cost leverage from improvements in automation took hold in 2024, helping our teams to process units quickly and efficiently, cutting over 1 full day of processing time.

In 2025, we are launching our Athena AI initiative, addressing the processes that happen from the time an item arrives in our authentication center to the time it's launched on our site. Athena leverages our data assets and AI capabilities to drive significant efficiencies. This enhancement aims to optimize our workflow and uses sophisticated image recognition to authenticate and pre-populate key item attributes. More accurate item attribution results in improved search, higher customer satisfaction, lower returns, better pricing accuracy, and quicker time to launch.

And we are just getting started; by the end of the year, we expect Athena to touch almost half of the items coming into our authentication centers.

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Turning to our third strategic pillar – Obsess Over Service...

At The RealReal - "Obsessing over Service" is a key part of our brand. From day one, we were clear that bringing a luxury experience to resale is important in this category. This focus has resulted in The RealReal's leadership position in luxury resale as a high trust, high NPS, high engagement platform. We are a modern luxury marketplace built on service, trust, and authenticity. We have done this by fostering a deep connection with our community of 38 million members, listening to their feedback, and evolving our platform to meet their needs.

For our buyers, in Q4 we launched obsession sharing, a feature that gives our members the ability to share their favorite items with their family, friends, and followers. We are excited to see our members use this feature as a way to express their personal style, inspire others to engage with our brand, and deepen their connection with The RealReal.

For our consignors, we obsess over service through reducing friction in the consignment process, balancing their needs on convenience, price and speed. The RealReal is known for rapid sell-through: nearly all of our items sell within 90 days AND, we work to ensure that items sell for the highest price the market will bear.

Our AI driven pricing engine helps us do this. At the end of 2024, 85% of our total units were launched using our pricing algorithms. This data-driven approach has been central to our efforts to improve pricing transparency, an important element in building further trust with our sellers. Obsessing over service will continue to be a key differentiator and shape the evolution of our business.

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In closing, our strategic pillars have aligned our company focus, and our growth playbook is working. We are laser focused on unlocking profitable supply. As resale continues to gain momentum, there is significant opportunity ahead, and The RealReal is well-positioned as the market and thought leader in luxury resale.

## REAL CFO Remarks – Q4'24

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Thank you, Rati.

It's an exciting time for The RealReal and luxury resale. As Rati mentioned, we expect the resale market to continue to grow and as the market leader, The RealReal is well positioned to take outsized share. Over the course of the last 2 years, we've completed a strategic refocus, and it's exciting to see how the business has returned to \$1.8 billion in GMV, as a significantly stronger and more profitable company.

2024 marked several defining moments for The RealReal:

- We achieved positive Adjusted EBITDA for the full year, an increase of \$65M versus the prior year, and an increase of \$122M on a 2-year basis
- Free Cash Flow and Operating Cash Flow were both positive for the full year, highlighting the power of our business model as we scale
- For the year, we expanded gross margin by 600 basis points through optimizing our consignment take rate and driving operational efficiencies
- We grew active buyers on a trailing 12-month basis and Average Order Values continue to trend well above \$500 dollars, reaching an all-time high of \$579 dollars in Q4

Today, I'll walk you through our 2024 financial results and discuss our outlook for 2025.

Starting with the fourth quarter...

Q4 GMV of \$504M increased 12% versus last year, exceeding our guidance range. GMV outperformance was driven by success in unlocking mid- and high-value supply. Revenue of \$164M increased 14% in the quarter, benefitting from higher consignment volume and an increase in profitable high-value direct revenue. Active buyers increased to 408 thousand, up 7% on a trailing 3-month basis. Active buyers on a trailing 12-month basis returned to growth, up 5% versus last year at 972 thousand.

Fourth quarter Gross Profit of \$122M improved \$16M year-over-year resulting in Gross Margin of 74.4% which increased 40 basis points versus the prior year. Fourth quarter Operating Expenses of \$127M were flat year-over-year. As a percent of total revenue, operating expenses leveraged over 1100 basis points. Excluding stock based compensation and a \$6M charge for restructuring in 2023, operating expenses leveraged 530 basis points driven by efficiency efforts in marketing and operations. Adjusted EBITDA of \$11.0M or 6.7% of Total Revenue increased \$9.6M versus prior year.

We generated \$27M in Operating Cash Flow for the quarter, resulting in Free Cash Flow of \$19M. We're very pleased with the cash generation that our business model delivers as we scale. As a reminder, unlike a typical retailer we don't purchase inventory ahead of a season for our consignment business. We pay our consignors after an item sells on our platform. This favorable cash conversion cycle creates a benefit to working capital and cash flows as we grow.

Moving to our Full Year 2024 results...

Full Year GMV of \$1.83B increased 6% versus prior year. Revenue of \$600M was up 9% versus the prior year driven by GMV growth and benefitting from changes in our take rate initiated in late 2022. Consignment and Shipping revenues grew 14% and 15% respectively for the year, and direct revenue was down 18% as we established a better baseline for that business.

Full Year Gross Profit of \$448M improved \$71M year-over-year. Gross Margin of 74.5% increased 600 basis points versus full year 2023. We've made tremendous progress on our gross margin over the past two years. From 2022 to 2024, we increased gross margins over 1600 basis points by overhauling our take rate structure, refining our product mix, and driving operational efficiencies.

Full Year Operating Expenses of \$504M declined \$39M year-over-year. As a percent of total revenue, operating expenses leveraged nearly 1500 basis points in 2024. Excluding stock based compensation and \$43M in 2023 restructuring charges, full year operating expense leveraged by 550 basis points.

We achieved a significant milestone in 2024, delivering our first full year of positive Adjusted EBITDA at \$9.3 million dollars, a \$64M increase versus 2023. This improvement in profitability translated to \$27M in Operating Cash Flow, up \$88M year-over-year and Free Cash flow of positive \$1 million, up \$104M versus prior year. We ended the year with \$187M in cash, cash equivalents, and restricted cash.

Turning now to 2025...

You heard Rati talk about our focus on unlocking profitable supply. Our results in 2024 reinforce our confidence that our growth playbook is working, and we are making progress in unlocking the \$200B luxury resale TAM in the US. We believe our strategy can deliver high single-digit to low double-digit growth over the medium-term.

We are projecting full year GMV of \$1.96 to \$1.99 billion for the year, increasing 8% year-over-year at the midpoint of our guidance. Revenue is expected to be between \$645M and \$660M, up 9% year-over-year at our midpoint and aligned with our growth expectations over the medium-term.

For the full year, we expect a relatively stable take rate and gross margin compared to the prior year. Opex seasonality by quarter is also expected to be similar to last year.

Adjusted EBITDA is expected to be in the range of \$20 to \$30M, driven by strong flowthrough from continued top line growth and operating expense leverage.

Capital Expenditures are expected to be roughly 2-3% of total revenue for the full year. Regarding timing of spend: due to the cadence of project deployment and timing of incentive payment, we expect operating cash flow and therefore free cash flow to be back half weighted.

Moving to our outlook for the first quarter...

GMV is expected to be in the range of \$484M to \$492M which represents 8% growth versus prior year at the midpoint of our guidance. First quarter Revenue is expected to be in the range of \$157 to \$161M. This reflects 11% growth versus last year at the midpoint of our guidance driven by growth in both the consignment and direct business. As a reminder, 2024 was a leap year so our first quarter has one less day in 2025, which results in a headwind of approximately 1 point of GMV and revenue growth for the quarter. First Quarter Adjusted EBITDA is expected to be between \$3M and \$4.5M.

As we continue on our path to profitability we've made progress on improving our capital structure. On February 10th, we announced a strategic debt transaction exchanging \$183M of our 2028 convertible notes for \$147M of new convertible notes due in 2031. We believe this transaction strikes the right balance between conversion price & capturing a discount on our 2028 debt. Through this transaction, we reduced our total indebtedness by \$37 million. We are excited about how this transaction enhances our capital structure and gives us flexibility as we continue executing against our strategic pillars.

In closing, I'd like to congratulate our team on reaching these important financial milestones during the year - profitable growth, positive Adjusted EBITDA and positive Free Cash Flow. Their relentless focus on unlocking supply through our growth playbook, driving operational efficiency, and obsessing over service are why we were able to meet these important targets in 2024.